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USTR FOR BEEMAN, DEPARTMENT FOR EAP/J - BRYAN, EEB/TRA FOR BYERLY

E.O. 12958: DECL: 03/20/2018

TAGS: ETRD FAIR PGOV JA

SUBJECT: MITSUBISHI REGIONAL JET SET FOR PRODUCTION

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 b/d

¶1. (C) A March 20 Nikkei article announced Mitsubishi Heavy Industries (MHI) will go forward with the Mitsubishi Regional Jet (MRJ) program. Also on March 20, a 35-year veteran of the Japanese aviation industry, Masao Suzuki, told EconOff the large ANA and JAL purchases, nearly 100 aircraft combined, are being arranged under GOJ pressure via retired bureaucrats who are now working for the Japanese aircraft carriers. In exchange, Suzuki said, the carriers may receive Japanese Civil Aviation Bureau (JCAB) benefits like slots and protection from international competition. An industry representative told Nagoya PO it is a widely held belief in Japan's aviation community that MHI has a GOJ guarantee for a certain number of MRJ orders. We cannot substantiate that assertion, however.

¶2. (C) Masao Suzuki, retired Northwest Airlines executive, said GOJ support for the MRJ comes through the New Energy and Industrial Technology Development Organization (NEDO). NEDO was established by the GOJ in 1980 to develop oil-alternative, industrial and environmental technologies. Suzuki also told EconOff that a few weeks ago a representative from Brazilian jet manufacturer Embraer came to warn MHI that his company is watching them closely for possible violations of WTO subsidy rules. Industry representatives told Nagoya PO that Brazil's Embraer, Canada's Bombardier, and Boeing are caught as both MHI customers, since MHI produces components for their aircraft, and as future competitors to the MRJ. A Boeing representative told Nagoya PO many in the company are angry with MHI. An official at the Canadian Consulate was more coy telling Nagoya PO that Bombardier expects to move more business to Canada. In a separate conversation, an industry executive told Nagoya PO that Bombardier is moving business away from MHI to China.

¶3. (C) An AmCit industry researcher resident in Japan told EconOff that METI provided \$34.5 million in fiscal year 2003, \$40 million in fiscal year 2004, and \$44 million in fiscal year 2005 in research funds. It is uncertain how much funding the project received in 2006. According to a Japanese trade publication, Wing Newsletter, in September 2007, the Ministry of Economy, Trade and Industry (METI)

requested 5.2 billion yen (\$52 million) for their fiscal year 2008 budget, but the budget has not yet been approved. In addition, a March 5 Asahi newspaper article reported Toyota Motors will invest 10 billion yen in the project. The AmCit researcher told EconOff the total cost of development is estimated at 50 billion yen and its goals are to create a 30 passenger jet costing \$9.9 million each with 20 percent less fuel consumption, fewer emissions, and less noise pollution than jets currently available and comparable.

¶4. (C) The industry researcher told EconOff Ishikawajima Harima Heavy Industries (IHI) was expected to pay 50 percent of private development, the largest industry share, followed by MHI and Kawasaki Heavy Industries (KHI) at approximately 15 percent each. Recently the Nanotechnology Lab director told Nagoya PO that research applying heat resistant ceramic coatings to jet engine fan blades was being developed for IHI. He said IHI intends to build an engine for the MRJ which will replace the Pratt & Whitney engine, but IHI currently does not have the requisite technology. Other media reports also indicate the Japan Aerospace Exploration Agency (JAXA) is conducting research and development which will ultimately be used by IHI, KHI and MHI for the regional jet's production.

¶5. (U) This cable was prepared in cooperation with AmConsulate Nagoya.

SCHIEFFER